INVESTIGATION BY
THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
ON ITS OWN MOTION INTO
THE PROVISION OF DEFAULT SERVICE

D.T.E. 02-40-B

June 4, 2003

COMMENTS OF THE WESTERN MASSACHUSETTS INDUSTRIAL CUSTOMERS GROUP ("WMICG")

Introduction

At the May 15, 2003 technical conference in this proceeding, the Hearing Officer invited the parties to submit supplemental written comments to address issues raised during the conference and by the Department's April 24, 2003 Order to implement a monthly procurement process. These Reply Comments by WMICG respond to the comments of several parties proposing a quarterly, rather than a monthly procurement process, for the procurement of default service supply for medium and large commercial industrial customers submitted on May 28, 2003 and the suggestion that a monthly procurement process could significantly increase utility procurement costs and require software modification that they seek to recover from customers.

Comments

For default service to work efficiently for medium and large customers, utilities and suppliers the system must reflect current prices in the market. In addition, the default service should not attempt to average prices or costs over a three, six or twelve month period. In fact, WMICG initially suggested in the Electric Restructuring Process in Massachusetts that the energy market should be structured to pass on the hourly energy prices to customers based on their hourly usage. This would make customers responsible for their own consumption and avoid any cross-subsidies. WMICG recognizes that there may be technical metering and billing as well as political misgivings or timidity to allow prices to vary based on supply and demand from a few pennies to a hundred dollars or more a kilowatt-hour. However, without wide price variations medium and large customers have little financial incentive to moderate demand at extremely high cost periods. The current default service pricing and procurement process, with known six month prices and a fixed six month average default service price, creates a product that discourages competition and provides the customer with no incentive to moderate usage during high cost hours or to contract for a longer-term supply.

WMICG supports the Department's April 24th Order to move administrative and bad debt costs to the default service rate and reduce the distribution charge. WMICG also supports the concept of a default service charge that reflects current market prices. A monthly procurement process does move in the right direction. However, several utilities have commented that a monthly procurement process creates administrative costs and other difficulties in connection with wholesale market rules. The utilities suggest a quarterly procurement process, at least on an interim basis. They suggest a quarterly procurement process as an alternative to avoid additional administrative costs and to be more consistent with wholesale market rules. Administrative costs in connection with the procurement of default service, whether incurred by the utilities or suppliers, will ultimately be factored into the charge that customers pay for electricity. Thus, WMICG proposes a format for quarterly or even semi-annual procurement of default service that provides for efficient current monthly prices and reduces administrative costs of all parties. A true win-win situation.

WMICG Proposal

It is critical that any procurement process of more than one month have as a required condition that the major portion of such bid be based on a reliable pricing index that is not subject to gaming by buyers or sellers. For example, the index could be the average Locational Marginal Price ("LMP") for the applicable zone for the three business days prior to the 20th day of the month (or some other day close to the beginning of the month) to allow the price to be posted on the utility and/or Department website seven days before the commencement of the month.

The index selected by the Department should apply to the procurement process for all utilities. Each utility would seek quarterly or semi-annual bids for all other products required to serve wholesale load, plus ancillary services, losses, RPS certificates and supplier profit. To this winning bid would be added the monthly LMP index price or other appropriate index reflecting current market prices. If there are other indices that reflect forward prices and are not subject to manipulation or gaming as has been recently reported in the trade press, such an index should be used. Use of an appropriate index should allow suppliers to hedge their bid and allow customers to seek a fixed price from a retail supplier who could likewise hedge its price.

As noted by Constellation New Energy: “keeping the price to beat in line with the real market cost of supplying power has been the single greatest challenge to fostering retail competition for electric supply. The Department is correct in observing that “in order to function as a basic service, default service should provide customers with efficient price signals.” April 25 Order at 37.” A uniform pricing index for procurement of default supply, which establishes the total price for one month at a time as described above, will properly reflect market cost and allow for procurement on a quarterly or semi-annual basis. Customers and suppliers will have a monthly market price based on current market conditions. Under the current system or under the quarterly system proposed by others, with known multi-month prices, a bust and boom cycle for competition is created based on the price of power on the procurement date and whether it turns out to be above or below the monthly market price. The WMICG proposal for procurement of default service based on a market sensitive index will encourage each customer to evaluate whether its requirements are better served by a contract with a retail supplier or a contract-for-differences to fix the customer’s total supply cost for a period of months. This is a competitive product that can and should be obtained from the market and not from the utility.

In addition, several commentaries suggested that a master enabling agreement should be adopted for all Massachusetts distribution companies in advance of the auction. The model would be similar to the use of “master trading agreements” and “confirms” which are commonly employed in wholesale energy trading. Just as the Department in DTE 02-38 has recognized the need for a uniform standard Interconnection Agreement for all distribution companies, the master agreement should be uniform to avoid additional costs to review multiple agreements by the suppliers, utilities and finally the Department. Of course the uniform agreement will need to be periodically amended to reflect changes in the industry practice, amendment of NEPOOL market rules or any new DTE rules or new statutes enacted within the Commonwealth. Nevertheless, the use of a master agreement can significantly streamline the contract negotiation and execution process for procurement of default service supply and will allow the DTE to further expedite its approval process.

Conclusion

Default service for medium and large customers should be procured in a manner that reflects current market costs and avoids unnecessary administrative costs. This can be accomplished by requiring a uniform bidding system with a single index for the major portion of the ultimate cost which properly reflects market cost for a term of one month or less. This proposal does not require monthly bidding where the supplier could change up to twelve times a year. A quarterly or semi-annual request for proposals based on a uniform contract and pricing index would implement the efficient pricing model suggested in the Order at 37, and avoid additional administrative cost and possible conflicts with NEPOOL markets for installed capacity. A uniform contract and index also should eliminate any difficulty for two or more smaller utilities from submitting a joint bid proposal and will expedite DTE approval.

WESTERN MASSACHUSETTS INDUSTRIAL CUSTOMERS GROUP

Respectfully submitted
by their attorneys,

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